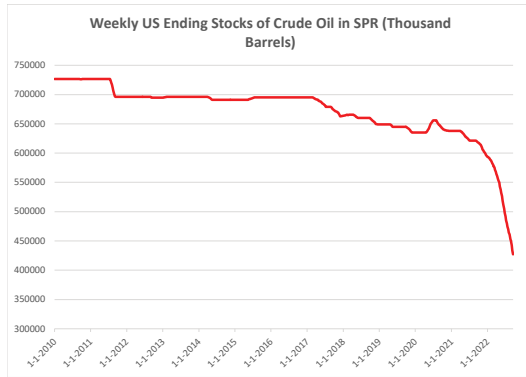


What is the Strategic Petroleum Reserve and why should you care?

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The Strategic Petroleum Reserve (“SPR”) is the largest emergency supply of oil in the world, established by the US government in 1975 to manage supply disruptions. In March of this year,



Source: NBF, EIA

President Biden announced a release of 1 million barrels of oil per day (~1% of 2022 global oil demand) from the SPR for 180 days to reduce the impact of higher oil prices caused by Russia’s invasion of Ukraine. On October 19th, Biden announced an additional release of 15 million barrels from the SPR to reduce oil prices while also announcing the US government’s plan to refill the SPR if oil falls to \$70 per barrel. Once this withdrawal is complete, oil stored in the SPR will have reached its lowest level since the mid 1980’s.

The price of West Texas Intermediate (“WTI”) peaked earlier this year at ~\$120 per barrel based on Russian supply fears. Since then, prices have retreated to the \$80 range due to several factors, including the largest release of oil from the SPR in history. What happens to oil prices when the SPR stops supplying ~1% of global demand?

Oil remains the most important commodity for the global economy as it’s used in almost everything we consume (plastics, petrochemicals, transportation, etc.) and has a significant impact on inflation. The International Energy Agency (www.iea.org) is the world’s leading resource for unbiased energy statistics. According to the IEA, global oil demand continues to grow with the reduction in demand due to COVID being a blip on the long-term trend of annual growth. Most of this growth is attributable to Asia’s increase in population and industrialization. On the other hand, demand is shrinking in the developed world due to increases in efficiency and incentives to decarbonize. What happens when oil demand continues to grow while companies haven’t invested in new supply? I encourage you to read a speech from the CEO of Aramco (Amin Nasser, Schlumberger Forum, Sept. 20, 2022) which succinctly summarizes this issue.

Please contact us to discuss this issue and how it impacts your portfolio.



403-488-4683

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